IMPENDLE LOCAL MUNICIPALITY

Annual Financial Statements
for the year ended June 30, 2016

General Information

Contact Numbers	033 996 0771
Website	www.impendle.gov.za
Demarcation Code	KZN224
Municipal Council	
Mayor	Ndlela S.G. HW Cllr (Speaker)
Councilors	Dlamini K.
	Gwala C.D.
	Mlaba S. (MPAC Chairperson)
	Mtolo P.
	Mvelase N.G.
	Zuma H.T.
Grading of local authority	Grade 1
	Category B.
Accounting Officer (AO)	Mabaso S.I.
Chief Finance Officer (CFO)	Kunene O.V.
Registered office	21 Mafahleni Street
	Impendle
	3227
Business address	21 Mafahleni Street
	Impendle
	3227
Postal address	Private Bag X512
	Impendle
	3227
Bankers	Amalgamated Banks of South Africa (ABSA)
	Chatterton Branch, Pietermaritzburg
Auditors	Auditor General South Africa
Attorneys	GNG Incorporated
	211 Burger Street
	Pietermaritzburg
	3200

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The reports and statements set out below comprise the annual financial statements presented to the Impendle Municipal Council:

Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
COGTA	Department of Cooperative Governance and Traditional Affairs
PAYE	Pay As You Earn
GRAP	Generally Recognised Accounting Practice
HIV/AIDS	Human Immune Deficiency Virus/ Acquired Immune Deficiency Syndrome
VAT	Value Added Tax
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
UIF	Unemployment Insurance Fund
CPI	Consumer Price Index
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
EPWP	Expanded Public Works Programme
DORA	Division of Revenue Act
UMDM	uMgungundlovu District Municipality

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Legislation

The following legislations were taken into account during the preparation of the Financial Statements: Constitution of the Republic of South Africa 1996, Municipal Systems Act 32 of 2000, Municipal Finance Management Act 56 of 2003, Municipal Property Rates Act 6 of 2004, Municipal Structures Act 117 of 1998 and Division of Revenue Act.

Accounting Officer's Responsibilities and Approval

The Accounting Officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the Accounting Officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and were given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The Accounting Officer acknowledges that he is ultimately responsible for the system of internal control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the Accounting Officer to meet these responsibilities, the Accounting Officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The Accounting Officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The Accounting Officer has reviewed the municipality’s cash flow forecast for the year to June 30, 2017 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue its operational existence for the foreseeable future.

The municipality is dependent on the grant allocations through the Division of Revenue Act (2015) for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Impendle Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the Accounting Officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's Chief Financial Officer.

Auditor General South Africa is responsible for independent review of Annual Financial Statements and expressing an opinion on fair presentation.

The annual financial statements set out on pages 5 to 62, which have been prepared on the going concern basis, were approved by the on August 31, 2016 and were signed on its behalf by:

Accounting Officer
Mabaso S.I. (Mr)

Statement of Financial Position as at June 30, 2016

Figures in Rand	Note(s)	2016	2015 Restated*
Assets			
Current Assets			
Operating lease asset	2	57,912	47,383
Receivables from exchange transactions	3	386,250	753,092
VAT receivable	4	671,272	521,704
Consumer debtors	5	4,553,959	2,874,324
Cash and cash equivalents	6	4,099,483	4,643,817
		9,768,876	**8,840,320**
Non-Current Assets			
Investment property	7	11,330,000	11,000,000
Property, plant and equipment	8	104,239,184	93,854,790
Intangible assets	9	314,987	165,314
		115,884,171	**105,020,104**
Total Assets		**125,653,047**	**113,860,424**
Liabilities			
Current Liabilities			
Operating lease liability	10	200,845	107,668
Payables from exchange transactions	11	1,027,054	1,527,279
Unspent conditional grants and receipts	12	381,091	464,160
Provisions	13	3,293,683	4,707,760
Current portion of long- term loan	14	548,627	498,489
		5,451,300	**7,305,356**
Non-Current Liabilities			
Long Service Awards	15	610,695	445,623
Long-Term loan	14	1,868,081	2,416,708
		2,478,776	**2,862,331**
Total Liabilities		**7,930,076**	**10,167,687**
Net Assets		**117,722,971**	**103,692,737**
Reserves			
Revaluation reserve	16	13,943,661	11,393,583
Accumulated surplus		103,779,310	92,299,154
Total Net Assets		**117,722,971**	**103,692,737**

* See Note 39

Statement of Financial Performance

Figures in Rand	Note(s)	2016	2015 Restated*
Revenue			
Service charges	17	44,691	40,211
Rendering of services		46,177	43,463
Rental of facilities and equipment	19	193,591	602,066
Rental income		251,827	458,932
Donations received- Assets		942,770	-
Other income	20	171,085	88,590
Debt impairment recovery		2,063,933	-
Interest received - investment	21	1,293,665	622,737
Property rates	22	4,064,654	4,044,979
Government grants & subsidies	23	62,649,069	51,114,837
Fines, Penalties and Forfeits		137,267	5,650
Licences and permits		36,383	31,593
Total revenue		**71,895,112**	**57,053,058**
Expenditure			
Employee related costs	24	(19,747,745)	(16,359,254)
Remuneration of councillors	25	(2,106,111)	(1,956,157)
Audit fees	26	(971,466)	(729,432)
Depreciation and amortisation	27	(6,517,203)	(6,057,421)
Impairment loss/ Reversal of impairments	28	(3,952,310)	(1,355,447)
Finance costs	29	(292,983)	(99,810)
Bad debts	30	(167,721)	(375,307)
Debt impairment		-	(2,759,928)
Repairs and maintenance		(892,508)	(591,470)
Contracted services	31	(1,480,499)	(1,176,996)
Grant funded expenditure	32	(13,036,074)	(11,065,368)
General Expenses	33	(11,603,436)	(10,191,231)
Total expenditure		**(60,768,056)**	**(52,717,821)**
Operating surplus		**11,127,056**	**4,335,237**
Gain on disposal of assets		23,098	-
Fair value adjustments	34	330,000	1,355,000
		353,098	**1,355,000**
Surplus for the year		**11,480,154**	**5,690,237**

* See Note 39

Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	8,751,726	83,090,057	91,841,783
Adjustments			
Correction of error	-	3,518,860	3,518,860
Balance at July 1, 2014 as restated*	**8,751,726**	**86,608,917**	**95,360,643**
Changes in net assets			
Surplus for the year	-	5,690,237	5,690,237
Changes in revaluation surplus arising from changes in existing decommissioning, restoration and similar liabilities	2,641,857	-	2,641,857
Total changes	2,641,857	5,690,237	8,332,094
Opening balance as previously reported	11,290,600	89,331,386	100,621,986
Adjustments			
Fair value additions of assets	-	2,967,770	2,967,770
Correction of error	102,983	-	102,983
Restated* Balance at July 1, 2015 as restated*	**11,393,583**	**92,299,156**	**103,692,739**
Changes in net assets			
Revaluation of Infrastructure Assets	2,550,078	-	2,550,078
Net Surplus (Deficit) recognised directly in net assets	2,550,078	-	2,550,078
Surplus for the year	-	11,480,154	11,480,154
Total recognised income and expenses for the year	2,550,078	11,480,154	14,030,232
Total changes	2,550,078	11,480,154	14,030,232
Balance at June 30, 2016	**13,943,661**	**103,779,310**	**117,722,971**
Note(s)	16		

* See Note 39

Cash Flow Statement

Figures in Rand	Note(s)	2016	2015 Restated*
Cash flows from operating activities			
Receipts			
Receipts from customers		4,064,654	4,044,979
Grants and subsidies received		62,566,000	49,402,427
Service charges- Refuse		44,691	40,211
Interest income		1,293,665	624,838
Other receipts		919,399	5,933,347
		68,888,409	60,045,802
Payments			
Employee costs		(21,750,582)	(18,881,271)
Suppliers		(28,460,291)	(18,544,599)
Finance costs		(292,983)	(99,810)
		(50,503,856)	(37,525,680)
Net cash flows from operating activities	35	**18,384,553**	**22,520,122**
Cash flows from investing activities			
Purchase of property, plant and equipment	8	(17,879,451)	(27,559,133)
Proceeds from disposal of property, plant and equipment	8	112,581	-
Purchase of other intangible assets	9	(663,528)	(363,340)
Net cash flows from investing activities		**(18,430,398)**	**(27,922,473)**
Cash flows from financing activities			
Movement in long-term loan		(498,489)	2,915,197
Finance lease payments		-	(529,451)
Net cash flows from financing activities		**(498,489)**	**2,385,746**
Net increase/(decrease) in cash and cash equivalents		**(544,334)**	**(3,016,605)**
Cash and cash equivalents at the beginning of the year		4,643,817	7,660,422
Cash and cash equivalents at the end of the year	6	**4,099,483**	**4,643,817**

* See Note 39

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	41,353	9,595	**50,948**	44,691	**(6,257)**	
Rendering of services	38,000	-	**38,000**	46,177	**8,177**	
Rental of facilities and equipment	163,226	-	**163,226**	193,591	**30,365**	45
Rental income	302,477	-	**302,477**	251,827	**(50,650)**	
Donations received- Assets	-	-	**-**	942,770	**942,770**	
Other income	8,492,917	(7,423,716)	**1,069,201**	171,085	**(898,116)**	45
Debt impairment recovery	-	-	**-**	2,063,933	**2,063,933**	45
Interest received - investment	200,000	400,000	**600,000**	1,293,665	**693,665**	45
Total revenue from exchange transactions	**9,237,973**	**(7,014,121)**	**2,223,852**	**5,007,739**	**2,783,887**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	3,896,584	652,094	**4,548,678**	4,064,654	**(484,024)**	45
Transfer revenue						
Government grants & subsidies	55,714,000	380,000	**56,094,000**	62,649,069	**6,555,069**	45
Fines, Penalties and Forfeits	6,279,360	(6,279,360)	**-**	137,267	**137,267**	45
Licences and permits	42,000	-	**42,000**	36,383	**(5,617)**	
Total revenue from non-exchange transactions	**65,931,944**	**(5,247,266)**	**60,684,678**	**66,887,373**	**6,202,695**	
Total revenue	**75,169,917**	**(12,261,387)**	**62,908,530**	**71,895,112**	**8,986,582**	
Expenditure						
Personnel	(18,399,271)	(1,013,070)	**(19,412,341)**	(19,747,745)	**(335,404)**	
Remuneration of councillors	(2,199,760)	13,478	**(2,186,282)**	(2,106,111)	**80,171**	
Administration	(1,000,000)	102,000	**(898,000)**	(971,466)	**(73,466)**	45
Depreciation and amortisation	(3,800,000)	(3,010,944)	**(6,810,944)**	(6,517,203)	**293,741**	45
Impairment loss/ Reversal of impairments	-	-	**-**	(3,952,310)	**(3,952,310)**	45
Finance costs	(264,000)	7,788	**(256,212)**	(292,983)	**(36,771)**	45
Lease rentals on operating lease	(350,000)	-	**(350,000)**	-	**350,000**	45
Bad debts written off	-	-	**-**	(167,721)	**(167,721)**	
Repairs and maintenance	(1,220,000)	318,000	**(902,000)**	(892,508)	**9,492**	
Contracted Services	(950,000)	-	**(950,000)**	(1,480,499)	**(530,499)**	45
Transfers and Subsidies	(5,596,584)	2,653,662	**(2,942,922)**	(13,036,074)	**(10,093,152)**	45
General Expenses	(28,037,201)	6,035,623	**(22,001,578)**	(11,603,436)	**10,398,142**	45
Total expenditure	**(61,816,816)**	**5,106,537**	**(56,710,279)**	**(60,768,056)**	**(4,057,777)**	
Operating surplus	**13,353,101**	**(7,154,850)**	**6,198,251**	**11,127,056**	**4,928,805**	
Gain on disposal of assets and liabilities	-	-	**-**	23,098	**23,098**	
Fair value adjustments	-	-	**-**	330,000	**330,000**	45
	-	**-**	**-**	**353,098**	**353,098**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Surplus before taxation	**13,353,101**	**(7,154,850)**	**6,198,251**	**11,480,154**	**5,281,903**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**13,353,101**	**(7,154,850)**	**6,198,251**	**11,480,154**	**5,281,903**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Operating lease asset	-	-	**-**	57,912	**57,912**	45
Receivables from exchange transactions	-	-	**-**	386,250	**386,250**	45
VAT receivable	700,000	-	**700,000**	671,272	**(28,728)**	45
Consumer debtors	2,650,000	-	**2,650,000**	4,553,959	**1,903,959**	45
Cash and cash equivalents	4,010,000	(1,284,000)	**2,726,000**	4,099,483	**1,373,483**	45
	7,360,000	**(1,284,000)**	**6,076,000**	**9,768,876**	**3,692,876**	
Non-Current Assets						
Investment property	9,665,000	1,500,000	**11,165,000**	11,330,000	**165,000**	45
Property, plant and equipment	96,670,000	3,981,000	**100,651,000**	104,239,184	**3,588,184**	45
Intangible assets	1,000	164,314	**165,314**	314,987	**149,673**	45
	106,336,000	**5,645,314**	**111,981,314**	**115,884,171**	**3,902,857**	
Total Assets	**113,696,000**	**4,361,314**	**118,057,314**	**125,653,047**	**7,595,733**	
Liabilities						
Current Liabilities						
Operating lease liability	-	-	**-**	200,845	**200,845**	45
Payables from exchange transactions	(350,000)	-	**(350,000)**	1,027,054	**1,377,054**	45
Unspent conditional grants and receipts	-	-	**-**	381,091	**381,091**	45
Provisions	1,450,000	-	**1,450,000**	3,293,683	**1,843,683**	45
Current portion of long- term loan	744,000	-	**744,000**	548,627	**(195,373)**	45
	1,844,000	**-**	**1,844,000**	**5,451,300**	**3,607,300**	
Non-Current Liabilities						
Long Service Awards	-	-	**-**	610,695	**610,695**	45
Long-Term loan	2,132,000	285,000	**2,417,000**	1,868,081	**(548,919)**	45
	2,132,000	**285,000**	**2,417,000**	**2,478,776**	**61,776**	
Total Liabilities	**3,976,000**	**285,000**	**4,261,000**	**7,930,076**	**3,669,076**	
Net Assets	**109,720,000**	**4,076,314**	**113,796,314**	**117,722,971**	**3,926,657**	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Revaluation reserve	(11,023,000)	29,229,500	**18,206,500**	13,943,661	**(4,262,839)**	45
Accumulated surplus	120,743,000	(25,153,186)	**95,589,814**	103,779,310	**8,189,496**	45
Total Net Assets	**109,720,000**	**4,076,314**	**113,796,314**	**117,722,971**	**3,926,657**	

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Receipts from customers	1,200,000	1,364,000	**2,564,000**	4,064,654	**1,500,654**	45
Grants	55,714,000	-	**55,714,000**	62,566,000	**6,852,000**	45
Interest income	320,000	274,000	**594,000**	1,293,665	**699,665**	45
Dividends received	41,000	-	**41,000**	44,691	**3,691**	45
Other receipts	14,498,000	(9,694,000)	**4,804,000**	919,399	**(3,884,601)**	45
	71,773,000	**(8,056,000)**	**63,717,000**	**68,888,409**	**5,171,409**	
Payments						
Employee costs	(21,854,000)	-	**(21,854,000)**	(21,750,582)	**103,418**	45
Suppliers	(28,509,000)	3,024,000	**(25,485,000)**	(28,460,291)	**(2,975,291)**	45
Finance costs	(264,000)	8,000	**(256,000)**	(292,983)	**(36,983)**	45
Transfers and grant	(5,633,000)	2,617,000	**(3,016,000)**	-	**3,016,000**	45
	(56,260,000)	**5,649,000**	**(50,611,000)**	**(50,503,856)**	**107,144**	
Net cash flows from operating activities	**15,513,000**	**(2,407,000)**	**13,106,000**	**18,384,553**	**5,278,553**	
Cash flows from investing activities						
Purchase of property, plant and equipment	(12,063,000)	(2,462,000)	**(14,525,000)**	(17,879,451)	**(3,354,451)**	45
Proceeds from disposal of asset	-	-	**-**	112,581	**112,581**	45
Purchase of other intangible assets	-	-	**-**	(663,528)	**(663,528)**	45
Net cash flows from investing activities	**(12,063,000)**	**(2,462,000)**	**(14,525,000)**	**(18,430,398)**	**(3,905,398)**	
Cash flows from financing activities						
Movement in long service awards	(744,000)	246,000	**(498,000)**	(498,489)	**(489)**	45
Net increase/(decrease) in cash and cash equivalents	2,706,000	(4,623,000)	**(1,917,000)**	(544,334)	**1,372,666**	45
Cash and cash equivalents at the beginning of the year	7,660,000	(3,017,000)	**4,643,000**	4,643,817	**817**	45
Cash and cash equivalents at the end of the year	**10,366,000**	**(7,640,000)**	**2,726,000**	**4,099,483**	**1,373,483**	

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice , issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

1.2 Going concern assumption

These annual financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next twelve months.

1.3 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements.

Trade receivables and receivables

The municipality assesses its trade receivables and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows.

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of and tangible assets.

1.3 Significant judgements and sources of estimation uncertainty (continued)

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

Useful lives of property, plant and equipment and intangible assets

As described in Accounting Policies 1.5 and 1.7, the municipality depreciates/amortises its property, plant and equipment, and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

Provision for Rehabilitation of Landfill Site

The municipality has an obligation to rehabilitate its refuse transfer station. Provision is made for this obligation based on the size / extent of the land to be rehabilitated. Current costs are projected based on the fair value calculations by the Engineering Consultants, using the average rate of inflation over the remaining period until rehabilitation.

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

1.4 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

1.4 Investment property (continued)

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the municipality determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the municipality determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the municipality measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The municipality applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the minicipality becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Accounting Policies

1.5 Property, plant and equipment (continued)

Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for Infrastructure Assets and Investment Property Assets which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset. The municipality uses a net replacement value method as a measurement basis for determining gross carrying amount on property, plant and equipment.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

1.5 Property, plant and equipment (continued)

Item	Depreciation method	Average useful life
Buildings	Straight line	30
Plant and machinery	Straight line	10-15
Furniture and fixtures	Straight line	10
Motor vehicles	Straight line	5-7
Office equipment	Straight line	
• Computer Hardware		4
• Office Machinery		3-5
IT equipment	Straight line	3-5
Computer software	Straight line	3-5
Infrastructure- Roads	Straight line	10-15
Community	Straight line	
• Sportfields		30
• Community Halls		30
Other property, plant and equipment	Straight line	
• Security Measures 3		3
• Security Measures 5		5
Other equipment	Straight line	
• Kitchen Equipment		5-7
Communication equipment	Straight line	
• A/V Equipment		5

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Derecognition

Item of property, plant and equipment are derecognised when the asset is disposed of or when there are no future economic benefits or service potential expected from the use of an asset, the gain or losses arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equpment. Such obligations are referred to initial estimate of the costs of dismantling and removing the item and restoring the site on which it it is located, the obligation for which a municipality incurrs either when the item is acquired or as a consequences of having used the item during a particular period for purposes other than to produce inventories during that period.

1.6 Site restoration and dismantling cost (continued)

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

1.7 Intangible assets (continued)

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, other	3-5 years

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one municipality and a financial liability or a residual interest of another municipality.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by a municipality on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from a municipality’s statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the ‘underlying’).
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

1.8 Financial instruments (continued)

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, a municipality shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm’s length transaction.

A financial asset is:
- cash;
- a residual interest of another municipality; or
- a contractual right to:
  - receive cash or another financial asset from another municipality; or
  - exchange financial assets or financial liabilities with another municipality under conditions that are potentially favourable to the municipality.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by a municipality in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of a municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of a municipality’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of a municipality.

1.8 Financial instruments (continued)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the municipality had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the municipality designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Accounting Policies

1.9 Leases (continued)

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.10 Impairment of cash-generating assets

Cash-generating assets are assets managed with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets managed with the objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

1.11 Employee benefits

Employee benefits are all forms of consideration given by a municipality in exchange for service rendered by employees.

A qualifying insurance policy is an insurance policy issued by an insurer that is not a related party (as defined in the Standard of GRAP on Related Party Disclosures) of the reporting municipality, if the proceeds of the policy can be used only to pay or fund employee benefits under a defined benefit plan and are not available to the reporting municipality's own creditors (even in liquidation) and cannot be paid to the reporting municipality, unless either:
- the proceeds represent surplus assets that are not needed for the policy to meet all the related employee benefit obligations; or
- the proceeds are returned to the reporting municipality to reimburse it for employee benefits already paid.

Termination benefits are employee benefits payable as a result of either:
- a municipality's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

Other long-term employee benefits are employee benefits that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

1.11 Employee benefits (continued)

A constructive obligation is an obligation that derives from a municipality's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the municipality has indicated to other parties that it will accept certain responsibilities and as a result, the municipality has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Short-term employee benefits

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

Post-employment benefits are employee benefits (other than termination benefits) which are payable after the completion of employment.

Post-employment benefit plans are formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees.

Multi-employer plans are defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that pool the assets contributed by various entities that are not under common control and use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the entity that employs the employees concerned.

Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a municipality pays fixed contributions into a separate municipality (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

When an employee has rendered service to the municipality during a reporting period, the municipality recognise the contribution payable to a defined contribution plan in exchange for that service:

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, a municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

The municipality does not have post employment benefit plans. However, the municipality recognises its employees who have completed 10, 20, 30, 40 years of service in terms of the collective agreement.

Actuarial valuations are conducted on an annual basis by independent actuaries. The results of the valuation are updated for any material transactions and other material changes in circumstances (including changes in market prices and interest rates) up to the reporting date.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

Financial assumptions are based on market expectations, at the reporting date, for the period over which the obligations are to be settled.

The rate used to discount post-employment benefit obligations (both funded and unfunded) reflect the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the post-employment benefit obligations.

Post-employment benefit obligations are measured on a basis that reflects:

- estimated future salary increases;
- the benefits set out in the terms of the plan (or resulting from any constructive obligation that goes beyond those terms) at the reporting date; and
- estimated future changes in the level of any state benefits that affect the benefits payable under a defined benefit plan, if, and only if, either:
- those changes were enacted before the reporting date; or
- past history, or other reliable evidence, indicates that those state benefits will change in some predictable manner, for example, in line with future changes in general price levels or general salary levels.

Assumptions about medical costs take account of estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs.

1.12 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

1.12 Provisions and contingencies (continued)

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

A constructive obligation to restructure arises only when a municipality:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

1.13 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

1.14 Commitments

The term commitments’ is not defined in any of the standards but may be referred to as the intention to commit to an outflow from the municipality of resources embodying economic benefits. Generally, a commitment arises when a decision is made to incur a liability in the form of a purchase contract (or similar documentation). Such a contractual commitment would be accompanied by, but not limited to, actions taken to determine the amount of the eventual resource outflow or a reliable estimate e.g. a quote, and conditions to be satisfied to establish an obligation e.g. delivery schedules. These preconditions ensure that the information relating to commitments is relevant and capable of reliable measurement. An agency may enter into a contract on or before the reporting date for expenditure over subsequent accounting periods e.g. a contract for construction of infrastructure assets, the purchase of major items of plant and equipment or significant consultancy contracts. In these events, a commitment exists at the reporting date as the municipality has contracted for expenditure but work has not commenced and no payments have been made.

1.15 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.16 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds. It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.17 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

1.18 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.20 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and which have not been condoned as the end of the year must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management (Act No.56 of 2003), the Municipal Systems (Act No.32 of 2000), and the Public Office Bearers (Act No. 20 of 1998) or is in contravention of the economic municipality’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

Accounting Policies

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

1.23 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financila Statistics classifications and budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.24 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm’s length or not in the ordinary course of business are disclosed.

1.25 Value Added Taxation

The Municipality accounts for Value Added Tax on payment basis. This means that VAT is declared to the South African Receiver of Revenue Services as input VAT or output VAT only when payments are made to suppliers or invoices made out to customers for goods and services. The net output VAT on debtors where money has not been received or creditors where payments has not yet been made is disclosed separately in the Statements of Financial Position in terms of GRAP 1.

1.26 Events after the Reporting Period

Adjusting and non-adjusting events may occur between the reporting date and the date the report is authorised for issue. Where an adjusting event occurs that affects a liability that has been disclosed, for example, the amount or timing of a liability has altered or an uncertainty relating to a provision has been removed, then an adjustment to that item is required. Where a future obligation relating to a contingent liability has been confirmed, i.e. a court case is settled after the reporting date and the contingency has previously been disclosed in a note, then a liability or provision will need to be recognised as follows:

- as a provision if some uncertainty still exists with respect to the amount or timing of the discharge of the obligation; or
- as a liability if no uncertainties exist. Where a non-adjusting event occurs relating to liabilities, for example, the market value of afinancial liability changes after the reporting date, no adjustments are made to the financial statements. However, if a non-adjusting event is material, the agency must disclose the following for each material category of non-adjusting event after the reporting date: the nature of the event; and
- an estimate of its financial effect, or a statement that such an estimate cannot be made.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

2. Operating lease asset (accrual)

Current assets	57,912	47,383

3. Receivables from exchange transactions

Other receivables	336,133	753,092
Other receivables- Traffic fines	50,117	-
	386,250	**753,092**

4. VAT receivable

VAT	671,272	521,704

5. Consumer debtors

Gross balances		
Rates	4,553,959	2,874,324
Net balance		
Rates	4,553,959	2,874,324
Rates		
Current (0 -30 days)	323,967	153,747
31 - 60 days	48,629	147,579
61 - 90 days	98,791	63,647
91 - 120 days	94,328	57,287
121 - 365 days	997,835	166,665
> 365 days	2,990,409	2,285,399
	4,553,959	**2,874,324**

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	9,452	10,000
Bank balances	4,090,031	419,248
Short-term deposits	-	4,214,569
	4,099,483	**4,643,817**

There were no contract debtors that were pledged as security for overdraft facilities during the 2015/16 financial year.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2016	June 30, 2015	June 30, 2014	June 30, 2016	June 30, 2015	June 30, 2014
ABSA BANK - Call Account - 4076240270	4,102,446	445,568	7,782,809	4,090,031	419,248	7,650,422
ABSA BANK - Call Account- 9297266618	-	1,000	-	-	1,000	-
ABSA BANK - Call Account- 9298354535	-	2,456	-	-	2,456	-
ABSA BANK - Call Account - 9296705825	-	90,854	-	-	90,854	-
ABSA BANK - Call Account - 9296706449	-	6,351	-	-	6,351	-
ABSA BANK - Call Account - 9306095433	-	12,627	-	-	12,627	-
ABSA BANK - Call Account - 9296706334	-	530,498	-	-	530,498	-
ABSA BANK - Call Account - 9296706261	-	3,526,972	-	-	3,526,972	-
ABSA BANK - Call Account - 9297366157	-	43,811	-	-	43,811	-
Petty Cash	-	10,000	10,000	9,452	10,000	10,000
Total	**4,102,446**	**4,670,137**	**7,792,809**	**4,099,483**	**4,643,817**	**7,660,422**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

7. Investment property

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	11,330,000	-	11,330,000	11,000,000	-	11,000,000

Reconciliation of investment property - 2016

	Opening balance	Fair value adjustments	Total
Investment property	11,000,000	330,000	11,330,000

Reconciliation of investment property - 2015

	Opening balance	Fair value adjustments	Total
Investment property	9,645,000	1,355,000	11,000,000

Fair value of investment properties	330,000	1,355,000

Pledged as security

There were no item of property, plant and equipment that were pledged as security for overdraft facilities during the 2015/16 financial year. Investment properties are fair-valued by an independent valuer every year. The valuation was performed using the market related research to establish market value on investment properties.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Details of valuation

The effective date of the revaluations was Thursday, June 30, 2016. Revaluations were performed by an independent valuer, Mills Fitchets who is not connected to the municipality and have recent experience in location and have suitable qualifications in the category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

8. Property, plant and equipment

	2016			2015		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	11,232,000	-	11,232,000	11,232,000	-	11,232,000
Buildings	4,686,591	(1,849,378)	2,837,213	4,565,566	(1,695,876)	2,869,690
Plant and machinery	2,880,413	(1,689,384)	1,191,029	2,835,403	(1,474,249)	1,361,154
Furniture and fixtures	1,405,081	(938,665)	466,416	1,389,803	(820,000)	569,803
Motor vehicles	2,062,461	(1,007,052)	1,055,409	884,840	(789,778)	95,062
Office equipment	377,587	(298,880)	78,707	353,112	(271,166)	81,946
IT equipment	1,309,108	(814,943)	494,165	948,733	(647,444)	301,289
Infrastructure	53,323,795	(21,046,224)	32,277,571	46,572,648	(13,199,942)	33,372,706
Community	37,707,885	(3,347,464)	34,360,421	33,108,502	(2,198,484)	30,910,018
Security Measures	422,788	(407,266)	15,522	417,538	(391,705)	25,833
Communication equipment	176,803	(146,159)	30,644	168,750	(136,928)	31,822
Assets under construction	20,185,206	-	20,185,206	12,987,133	-	12,987,133
Kitchen equipment	49,151	(34,270)	14,881	45,118	(28,784)	16,334
Total	**135,818,869**	**(31,579,685)**	**104,239,184**	**115,509,146**	**(21,654,356)**	**93,854,790**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2016

	Opening balance	Additions	Newly Identified and donations	Transfers in	Transfers out	Revaluations	Other changes, movements	Depreciation	Impairment loss	Total
Land	11,232,000	-	-	-	-	-	-	-	-	11,232,000
Buildings	2,869,690	121,025	-	-	-	-	-	(153,502)	-	2,837,213
Plant and machinery	1,361,154	-	45,010	-	-	-	-	(188,419)	(26,716)	1,191,029
Furniture and fixtures	569,803	15,278	-	-	-	-	-	(118,665)	-	466,416
Motor vehicles	95,062	1,297,427	-	-	-	-	(89,477)	(247,603)	-	1,055,409
Office equipment	81,946	24,475	-	-	-	-	-	(27,714)	-	78,707
IT equipment	301,289	360,375	-	-	-	-	-	(167,499)	-	494,165
Infrastructure	33,372,706	-	-	4,201,069	-	2,550,078	-	(3,920,688)	(3,925,594)	32,277,571
Community	30,910,018	702,240	897,760	2,999,383	-	-	-	(1,148,980)	-	34,360,421
Security Measures	25,833	5,250	-	-	-	-	-	(15,561)	-	15,522
Communication equipment	31,822	8,053	-	-	-	-	-	(9,231)	-	30,644
Assets under Construction	12,987,133	14,398,525	-	-	(7,200,452)	-	-	-	-	20,185,206
Kitchen Equipment	16,334	4,033	-	-	-	-	-	(5,486)	-	14,881
	93,854,790	**16,936,681**	**942,770**	**7,200,452**	**(7,200,452)**	**2,550,078**	**(89,477)**	**(6,003,348)**	**(3,952,310)**	**104,239,184**

Notes to the Annual Financial Statements

Figures in Rand

8. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2015

	Opening balance	Additions	Newly identified	Transfers in	Transfers out	Revaluations	Other changes, movements	Depreciation	Impairment loss	Impairment reversal	Total
Land	8,332,000	-	2,900,000	-	-	-	-	-	-	-	11,232,000
Buildings	2,934,750	-	84,315	-	-	-	-	(149,375)	-	-	2,869,690
Plant and machinery	1,738,152	-	-	-	-	-	-	(126,038)	(250,960)	-	1,361,154
Furniture and fixtures	622,542	58,250	4,215	-	-	-	-	(115,204)	-	-	569,803
Motor vehicles	199,207	-	-	-	-	-	-	(104,145)	-	-	95,062
Office equipment	73,053	33,006	10,526	-	-	-	-	(34,639)	-	-	81,946
IT equipment	277,350	133,622	44,791	-	-	-	-	(154,474)	-	-	301,289
Infrastructure	12,350,602	5,761,913	-	18,937,203	-	2,641,859	(1,017,499)	(4,196,885)	(1,803,011)	698,524	33,372,706
Community	21,653,179	1,682,353	-	8,502,861	-	-	-	(928,375)	-	-	30,910,018
Security Measures	53,103	5,254	-	-	-	-	-	(32,524)	-	-	25,833
Communication equipment	21,953	16,939	-	-	-	-	-	(7,070)	-	-	31,822
Assets under Construction	33,946,445	16,814,422	-	-	(37,773,734)	-	-	-	-	-	12,987,133
Kitchen Equipment	11,587	9,527	-	-	-	-	-	(4,780)	-	-	16,334
	82,213,923	**24,515,286**	**3,043,847**	**27,440,064**	**(37,773,734)**	**2,641,859**	**(1,017,499)**	**(5,853,509)**	**(2,053,971)**	**698,524**	**93,854,790**

Revaluations

The effective date of the revaluations of infrastructure assets was Thursday, June 30, 2016. Revaluations were performed by independent valuer, who is not connected to the municipality. The valuations for infrastructure assets are performed by an independent professional, suitably qualified and experienced property valuer every year who has recent experience in the location and category of the infrastructure assets being valued.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

8. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2016

	Included within Infrastructure	Included within Community	Total
Opening balance	-	12,987,133	12,987,133
Additions/capital expenditure	8,534,743	5,863,782	14,398,525
Transferred to completed items	(4,201,070)	(2,999,382)	(7,200,452)
	4,333,673	**15,851,533**	**20,185,206**

Reconciliation of Work-in-Progress 2015

	Included within Infrastructure	Included within Community	Total
Opening balance	17,864,394	16,082,052	33,946,446
Additions/capital expenditure	6,662,626	6,630,310	13,292,936
Transferred to completed items	(24,527,020)	(9,725,229)	(34,252,249)
	-	**12,987,133**	**12,987,133**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

9. Intangible assets

	2016			2015		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,306,336	(991,349)	314,987	833,168	(667,854)	165,314

Reconciliation of intangible assets - 2016

	Opening balance	Additions	Amortisation	Total
Computer software	165,314	663,528	(513,855)	314,987

Reconciliation of intangible assets - 2015

	Opening balance	Additions	Amortisation	Total
Computer software	4	363,340	(198,030)	165,314

10. Operating Lease Liability

	2016	2015
Current liability	200,845	107,668

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

11. Payables from exchange transactions

Trade payables	165,368	337,502
Payments received in advanced	47,427	38,955
Accrued bonus	580,870	511,659
Commission	25,400	-
Deposits received	4,800	1,200
Retention	203,189	637,963
	1,027,054	**1,527,279**

12. Unspent conditional grants and receipts

The municipality received in total an amount of R62,566,000 for conditional grants during the 2015/2016 financial year.The unspent conditional grant roll-over for the previous year which was spent in the current year relating to Thusong grant and LG Seta grant was R83,089. The municipality had an unspent amount of R381,091 at the end of the financial year 2015/2016.

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Housing Fund Grant	381,091	381,091
Thusong Services Centre Grant	-	70,442
LG SETA Grant	-	12,627
	381,091	**464,160**

Movement during the year

Balance at the beginning of the year	464,160	2,176,570
Additions during the year	32,258,440	22,528,276
Income recognition during the year	(32,341,509)	(24,240,686)
	381,091	**464,160**

These amounts are invested in a ring-fenced investment until utilised. Revenue is only recognised from these conditional grants once all conditions relating to expenditure are fulfilled.

13. Provisions

Reconciliation of provisions - 2016

	Opening Balance	Additions	Utilised during the year	Reversed during the year	Total
Environmental rehabilitation	810,000	40,579	(40,579)	-	810,000
Provision for doubtful debts	2,759,928	-	-	(2,063,934)	695,994
Leave pay provision	1,137,832	697,614	(47,757)	-	1,787,689
	4,707,760	**738,193**	**(88,336)**	**(2,063,934)**	**3,293,683**

Reconciliation of provisions - 2015

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	810,000	54,885	(54,885)	810,000
Provision for doubtful debts	621,175	2,138,753	-	2,759,928
Leave pay provision	1,007,556	130,276	-	1,137,832
	2,438,731	**2,323,914**	**(54,885)**	**4,707,760**

The provisions for the above relates to expenses directly attributed to the rehabilitation of landfill site and leave pay-out for staff leave days. The municipality expects to incur these expenses during the next financial year and the amount to be incurred is uncertain.

Environmental rehabilitation provision

In terms of the licencing of the Landfill refuse site, the municipality will incur licensing costs and rehabilitation costs estimated at R810,000 to restore the site at the end of its useful life. Provision has been made, taking into account the independent valuer's report, for the net present value of this cost, using the average cost of borrowing interest rate. The provision will be funded internally by internally generated revenue.

The municipality is not certain of the amount which might be incurred in the rehabilitation of the landfill site.

Employee benefit cost provision

The above provision for leave pay relates to the number of days accumulated by the employees during the reporting period. The leave pay provision is calculated on all oustanding leave balances as at 30 June 2016. This is the amount that the employees would be entitled to receive should the employees resign or cease employment with the municipality on 30 June 2016.

The municipality is not certain when will the leave days be paid out to employees as this depends on when will employees resign or cease employment with the municipality.

14. Long-Term loan

	2016	2015
Non-current		
ABSA Loan	2,416,708	2,915,197
less: Short-term portion transferred to current liabilities	(548,627)	(498,489)
	1,868,081	**2,416,708**
Current liabilities		
Current portion of long term loan	548,627	498,489

During the previous financial year, the municipality had taken a long-term loan of R3 million. The loan is repaid in sixty (60) monthly instalments over the period of loan term at a fixed interest rate of 9.50 percent.

15. Employee benefit obligations- Long Service Award

Movement in the present value of the defined benefit obligation	2016	2015
Opening balance	445,623	341,640
Current service cost	78,809	60,596
Interest cost	36,771	28,659
Actuarial (gain)/losses	49,492	14,728
	610,695	**445,623**

The actuarial valuation of long service award report has been performed by Arch Actuarial Consulting.The Projected Unit Credit Method has been used to value the long service award and the effective date of this valuation is 30 June 2016.

Key assumptions used

Assumptions used at the reporting date:The expected inflation assumption of 6.25% was obtained from the differential between market yields on index-linked bonds (1.74%) consistent with the estimated terms of the liabilities and those of nominal bonds (8.60%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). There fore, expected inflation is determined as ((1+8.60%-0.50%)/1+1.74%))-1. Thus, a general salary inflation rate of 7.25% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 1.26%. It has been assumed that the next salary increase will take place on 1 July 2017.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the Long Service Awards are based on an employee's salary at the date of the award.

General Salary Inflation: This assumption is more stable relative to the growth in Consumer Price Index than in absolute terms. Experience has shown that over the long term, salary inflation is between 1.0% and 1.5% above CPI inflation.

Key Financial Assumptions		
Discount rate	8.60%	8.35%
General salary inflation	7,25%	7.28%

The salaries used in the valuation include an assumed increase on 01 July 2016 of 6% as per the SALGBC Circular No: 01//2016. The next salary increase was assumed to take place on 01 July 2017.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

Key Demographic Assumptions

Withdrawal from Service (sample annual rate)	Age	Female	Male
	20	24%	16%
	30	18%	12%
	40	10%	8%
	50	4%	4%
	55	2%	2%

It has been assumed that male employees will retire at 62 and female at age 50.

The mortality rate during employment in South Africa is 85 years to 90 years

16. Revaluation reserve

	2016	2015
Opening balance	11,393,583	8,751,726
Change during the year	2,550,078	2,641,857
	13,943,661	**11,393,583**

17. Service charges

	2016	2015
Refuse removal	44,691	40,211

18. Revenue

	2016	2015
Rendering of services	46,177	43,463
Service charges	44,691	40,211
Rental of facilities and equipment	193,591	602,066
Rental income	251,827	458,932
Donations received	942,770	-
Other income	171,085	88,590
Debt impairment recovered	2,063,933	-
Interest received - investment	1,293,665	622,737
Property rates	4,064,654	4,044,979
Government grants and subsidies	62,649,069	51,114,837
Fines, Penalties and Forfeits	137,267	5,650
Licences and permits	36,383	31,593
	71,895,112	**57,053,058**

The amount included in revenue arising from exchanges of goods or services are as follows:	2016	2015
Service charges	44,691	40,211
Rendering of services	46,177	43,463
Rental of facilities and equipment	193,591	602,066
Rental income	251,827	458,932
Donation income	942,770	-
Other income	171,085	88,590
Debt impairment recovered	2,063,933	-
Interest received	1,293,665	622,737
	5,007,739	**1,855,999**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

18. Revenue (continued)

The amount included in revenue arising from non-exchange transactions is as follows:

Taxation revenue		
Property rates	4,064,654	4,044,979
Transfer revenue		
Government grants & subsidies	62,649,069	51,114,837
Fines, Penalties and Forfeits	137,267	5,650
Licences and permits	36,383	31,593
	66,887,373	**55,197,059**

19. Rental of facilities and equipment

Facilities and equipment		
Hall Hire	14,200	18,948
Rental of equipment	6,274	13,770
Residential Rental- Lot 52	44,958	29,975
Rental income- Thusong Centre	102,772	526,200
Rental income- Market Stalls	25,387	13,173
	193,591	**602,066**

20. Other income

Sundry Receipts	13,103	6,244
Tender Fees	76,184	21,884
Rates Certificates	3,857	2,208
Local Government SETA Refund	40,420	12,840
Copies, Fax and Printing	37,521	45,414
	171,085	**88,590**

21. Investment revenue

Interest revenue		
Interest on Investments	934,811	591,192
Interest charged on trade and other receivables	358,854	31,545
	1,293,665	**622,737**

The amount included in Investment revenue arising from exchange transactions amounted to R1,293,665.

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R1,293,665 (PY: R622,737).

22. Property rates

Rates received

Residential	192,365	197,391
Commercial property	1,278,099	172,661
Government	2,339,710	2,369,433
Small holdings and farms	296,854	1,510,014
Industrial	-	(165,229)
Multi-purpose	4,136	4,682
Less: Income forgone	(46,510)	(43,973)
	4,064,654	**4,044,979**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

23. Government grants and subsidies

Operating grants		
Equitable share	30,307,560	26,874,150
Finance Management Grant	1,771,534	1,484,081
Cyber Cadet Grant (Art & Culture)	170,000	162,890
Municipal Systems Improvement Grant	514,428	841,285
LG SETA Grant	1,864,627	1,807,800
Thusong Grant	61,210	44,737
Expanded Public Works Programme Grant	1,255,000	1,294,000
Public Participation Grant	-	1,424
Library Grant	553,000	503,005
HIV/AIDS Grant	-	20,000
Free Basic Electricity Grant	2,635,440	1,282,850
Sports and Recreation Grant	-	61,476
	39,132,799	34,377,698
Capital grants		
Municipal Infrastructure Grant	17,063,000	11,736,000
Municipal Systems Improvement Grant	415,572	92,715
Thusong Grant	9,232	8,599
Library Grant	-	31,995
Electrification Grant	6,000,000	3,000,000
Small Town Rehabilitation Grant	-	1,240,364
Milling Grant	-	311,547
Finance Management Grant	28,466	315,919
	23,516,270	16,737,139
	62,649,069	**51,114,837**

Equitable Share

In terms of the Constitution of the Republic of South Africa, the Equitable Share Grant is used to subsidise the provision of basic services to indigent community members and facilitation of service delivery.

All registered indigents receive a monthly free basic electricity which was allocated as a percentage of the Equitable Share.

Free Basic Electricity Grant

Current-year receipts	2,635,440	1,282,850
Conditions met - transferred to revenue	(2,635,440)	(1,282,850)
	-	**-**

All conditions were met.

This grant is to be used to provide monthly subsidy of 50kW of electricity free to indigent people.

The grant was transferred by National Treasury

The focus was to assist the municipality to subsidise indigent people in the community with free basic services.

As at 30 June 2016, implementation was 100% complete and the grant had been spent in full.

Small Town Rehabilitation Grant

Balance unspent at beginning of year	-	1,240,364
Conditions met - transferred to revenue	-	(1,240,364)
	-	**-**

Notes to the Annual Financial Statements

23. Government grants and subsidies (continued)

The grant is for the implementation of projects to enhance Impendle Town by upgrading Mafahleni Street.

The Grant was transferred by the Department of Cooperative Governance and Traditional Affairs. The implementation was 100% complete and the grant had been spent in full during the previos financial year.

Cyber Cadet Grant

	2016	2015
Balance unspent at beginning of year	-	36,890
Current-year receipts	170,000	126,000
Conditions met - transferred to revenue	(170,000)	(162,890)
	-	-

Conditions to the grant were met in full - (see note 12).

The grant is to be used to pay Cyber Cadet's salary.

The grant was transferred by Provincial Library Services Department.

As at 30 June 2016, the implementation was 100% complete and the grant had been spent in full.

IDP Public Participation Grant

	2016	2015
Balance unspent at beginning of year	-	1,424
Conditions met - transferred to revenue	-	(1,424)
	-	-

Conditions to the grant were met in full - (see note 12).

This grant is to be used for enhancement of public participation and improve communication by municipality to the communities.

The grant was transferred by Provincial Cooperative Governance and Traditional Affairs

The implementation was 100% complete and the grant had been spent in full during the previous financial year.

Housing Fund Grant

	2016	2015
Balance unspent at beginning of year	381,091	381,091

All conditions were met.

The grant is to be used for financing the preliminary stage of housing development.

The grant was transferred by the Department of Human Settlement.

The focus was to finance housing preliminary stage.

The municipality made an application to the Department of Human Settlement to use the remainder of this grant towards building rental flats or putting water septic tanks on houses built using this grant, the business plants submitted to Department of Human settlement are awaiting approval.

Milling Grant

	2016	2015
Balance unspent at beginning of year	-	311,547
Conditions met - transferred to revenue	-	(311,547)
	-	-

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

Conditions to the grant were met in full - (see note 12).

The maize massification programme is designed to develop rural municipalities within the priority corridors in terms of poverty alleviation, job creation, food security as well as Local Economic Development.

The grant was transferred by the Cooperative Governance and Traditional Affairs.

The implementation processes for this identified projects to ensure that there is implementation alignment across the board.

The implementation was 100% complete at the end of the financial year.

Municipal Infrastructure Grant

Current-year receipts	17,063,000	11,736,000
Conditions met - transferred to revenue	(17,063,000)	(11,736,000)
	-	-

All conditions were met.

The grant is to be used for infrastructure development only.

The grant was transferred by National Treasury.

The grant intended focus is to provide specific capital finance for basic municipal infrastructure backlogs for the poor househlods to micro-enterprises and social institutions servicing poor communities.

The municipality initially received R12,063,000 which was the amount which was initially gazetted and subsiquently received an additional R5,000.00 during the third quarter of the year.

The grant was 100% implemented and the grant had been spent in full.

Electrification Grant

Current-year receipts	6,000,000	3,000,000
Conditions met - transferred to revenue	(6,000,000)	(3,000,000)
	-	-

The conditions of this grant were met.

As at 30 June 2016, the implementation was 100% complete and the grant had been spent in full.

The grant is used for the implementation of the integrated national electrification by providing capital subsidies to Eskom to address the electrification backlogs of permanently occupied dwellings, the installation of bulk infrastructure and rehabilitation of electrification infrastructure.

This grant was transferred by the Department of Energy.

Sports and Recreation Grant

Balance unspent at beginning of year	-	61,476
Conditions met - transferred to revenue	-	(61,476)
	-	-

Conditions to the grant were met in full - (see note 12).

This grant is for mass participation and sport development aimed at increasing and sustaining mass participation in sports and recreational activities.

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

The grant was trasnferred by the Department of Sport and Recreation.

The implementation was 100% complete and the grant had been spent in full during the previou financial year.

Expanded Public Works Programme Grant

Current-year receipts	1,255,000	1,294,000
Conditions met - transferred to revenue	(1,255,000)	(1,294,000)
	-	-

The conditions of this grant were met in full.

As at 30 June 2016, the implementation was 100% complete and the grant had been met in full.

The EPWP Grant creates work opportunities in four sectors, namely; increasing the labour intensity of government- funded by infrastructure projects, create work opportunities through the Non-Profit Organisation Programme (NPO) and Community Work Programme (CPW) under the Non-State Sector, create work opportunities in public environment and culture programmes under the Environment and Culture Sector, create work opportunities in the Public Social Programme under the Social Sector. The EPWP also provides training and enterprise development support, at a sub-programme leve.

The grant was transferred by the Department of Public Works.

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

Thusong Grant

Balance unspent at beginning of year	70,442	123,778
Conditions met - transferred to revenue	(70,442)	(53,336)
	-	**70,442**

Conditions still to be met - remain liabilities (see note 12).

As at 30 June 2016, implementation was 100% complete:

The grant was tranferred by the National Cooperative Governance and Traditional Affairs.

This is an ongoing initiative that focuses in the rural areas and under-serviced areas with the following key objectives:
- To bring government information and services closer to the people and to promote cost-effective, integrated, efficient and sustainable service provision to better serve the needs of citezens;
- To promote access to opportunities as a basis for improved livelihoods;
- To create a platform for greater dialogue between citizens and government.

HIV/AIDS Grant

Balance unspent at beginning of year	-	20,000
Conditions met - transferred to revenue	-	(20,000)
	-	**-**

Conditions to the grant were met in full - (see note 12).

The grant was transferred by uMgungundlovu District Municipality.

The focus was to help in the implementation of HIV/AIDS programmes within the Impendle Municipality.

The municipality had implemented HIV/AIDS programme and the grant had been spent in full during the previous financial year.

Finance Management Grant

Current-year receipts	1,800,000	1,800,000
Conditions met - transferred to revenue	(1,800,000)	(1,800,000)
	-	**-**

The grant is to be used to finance the cost for the establishment of budget and treasury office, establishment of supply chain management, internal audit and audit committee, appointment and training of finance interns, preparing and timely submission of annual financial statements, implement corrective actions to address audit findings and the implementation of a financial recovery plan and implementation thereof where appropriate.

The grant was transferred by National Treasury.

The focus of this grant is to promote and support reforms of financial management by building capacity in municipalities to implement the Municipal Finance Management Act No.56 of 2003.

As at 30 June 2016, implementation was 100% complete and the grant had been spent in full.

Municipal Systems Improvement Grant

Current-year receipts	930,000	934,000
Conditions met - transferred to revenue	(930,000)	(934,000)
	-	**-**

Figures in Rand	2016	2015

23. Government grants and subsidies (continued)

All conditions of the grant were met.

This grant is to be used for municipal systems improvement.

The grant was transferred by National Cooperative Governance and Traditional Affairs.

The focus of this grant is to assist municipalities in building in-house capacity to perform their functions and stabilise institutional and governance systems that support effective service delivery as required in the Municipal Systems Act, 2000 and related legislations and policies.

As at 30 June 2016, implementation was 100% complete and the grant had been spent in full.

Library Grant (Art and Culture)

	2016	2015
Current-year receipts	553,000	535,000
Conditions met - transferred to revenue	(553,000)	(535,000)
	-	-

All conditions were met.

This grant is to be used to transform urban and rural community library infrastructure facilities and services through a recapitalised programme of provincial level in support of local government and national initiatives.The grant was transferred by Provincial Library Department

The focus for this grant was to assist the municipality to finance the salary of the library staff

As at 30 June 2016, implementantion was 100% complete and the grant had been spent in full.

LG SETA Grant

	2016	2015
Balance unspent at beginning of year	12,627	-
Current-year receipts	1,852,000	1,820,427
Conditions met - transferred to revenue	(1,864,627)	(1,807,800)
	-	**12,627**

Conditions still to be met - remain liabilities (see note 12).

The grant is for the implementation of the National Skills Development Strategy III for 2011 to 2016 developed by the Minister of Higher Education and training as directed by the Skill Development (Act No. 97 of 1998) and the Skills Development Levy Act (Act No. 9 of 1999) by improving the effectiveness and efficiency of the skills development systems..

The focus is promotion and support of the integration of theoretical learning with workplace training and provision of learning programme to learners.

As at 30 June 2016, implementation was 100% complete

Changes in level of government grants

Based on the allocations set out in the Division of Revenue (Act of 2015), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years, except for the Municipal Systems Improvement Grant which will cease to exist as at the 2016/17 financial year.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

24. Employee related costs

Basic	11,799,883	10,205,749
Bonus	943,433	806,025
Medical aid - company contributions	830,872	719,872
UIF	135,645	122,401
SDL	193,625	150,525
Bargaining Council Levies	7,642	7,591
Leave pay provision charge	697,614	130,276
Long Service Awards- Actuarial Loss	49,492	14,728
Defined contribution plans	1,701,261	1,387,547
Overtime payments	95,849	63,342
Long-service awards	78,809	60,596
Housing benefits and allowances	58,490	43,770
Cellphone Allowance	12,000	12,000
Standby Allowances	19,260	-
Non-Pensionable Allowance	114,817	-
	16,738,692	**13,724,422**

Remuneration of Municipal Manager

Annual Remuneration	706,661	650,894
Allowances	144,000	122,894
	850,661	**773,788**

Remuneration of Chief Finance Officer

Annual Remuneration	510,531	458,689
Allowances	280,250	260,618
	790,781	**719,307**

Remuneration for Community and Corporate Services Manager

Annual Remuneration	577,327	430,934
Allowances	112,300	94,121
	689,627	**525,055**

Remuneration for Infrastructure & Planning Services Manager

Annual Remuneration	677,984	616,682

Total Remuneration

Total Remuneration	19,747,745	16,359,254

25. Remuneration of councillors

Mayor	713,136	650,185
MPAC Chairperson	282,721	267,642
Councillors (All councillors except MPAC Chairperson are in the same bracket)	1,110,254	1,038,330
	2,106,111	**1,956,157**

There were no councillors who had arrear accounts outstanding for more than 90 days during the reporting period.

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

25. Remuneration of councillors (continued)

In-kind benefits

The remuneration of the Political Office Bearers and Councillors are within the upper limits as determined by the framework envisaged in section 219 of the Constitution.

The Mayor is full-time. He is provided with an office, cellphone, 3G modem and a laptop at the cost of the Council.

The Mayor utilises Council owned vehicle for official duties.

The Mayor has two full-time mayoral aids sourced within municipal security section.

26. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Amount paid - current year	971,466	729,432

PAYE and UIF

Current year subscription / fee	3,218,577	2,789,805

Pension and Medical Aid Deductions

Amount paid - current year	2,532,133	2,107,419

VAT

VAT receivable	671,272	521,704

VAT output payables and VAT input receivables are shown in note 4.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

As of 30 June 2016, no Councillors had arrear accounts outstanding for more than 90 days:

27. Depreciation and amortisation

Property, plant and equipment	6,517,203	6,057,421

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

28. Impairment of assets

Impairments		
Property, plant and equipment	4,643,033	2,053,971
Plant and Equipment and Infrastructure Assets were revalued and assessed for impairment during the reporting period. Certain Plant within the Plant & Equipment was subsequently impaired by R4,643,033 and impairment was reversed on certain Infrastructure Assets which were previously impaired. The impairment reversal amounted to R690,723.		
Reversal of impairments		
Property, plant and equipment	(690,723)	(698,524)
Infrastructure assets which were previously impaired, were revalued and the impairment loss for the previous year was reversed . The recoverable service amount of the asset was based on its fair value less its value in use.		
Total impairment losses (recognised) reversed	**3,952,310**	**1,355,447**

During the 2014/15 financial year, infrastructure assets were impaired with an amount of R1,355,477. This class of assets above was revalued during the 2015/16 financial year and there a further increase in impairment amounting to R3,952,310.

29. Finance costs

Non-current borrowings	292,983	99,810

Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R292,983 - (2015: R 99,810).

30. Bad Debts

Debt impairment	167,721	375,307

31. Contracted services

Specialist Services	1,480,499	1,176,996

Contracted services were for services rendered by Chubb, Nashua, Minolta for the rental of security alarms and photocopying machines.

32. Grants funded expenditure

Other subsidies		
HIV/AIDS Grant	-	20,000
IDP Review and Public Participation	-	11,155
Library Grant	745,171	619,097
Public Participation Framework	1,450	1,424
Cyber Cadet Grant	200,848	169,353
Electrification projects	6,059,820	4,021,190
Municipal System Improvement Grant	613,932	960,702
LG SETA Grant	1,801,706	1,807,800
Finance Managment Grant	1,676,264	1,405,636
Thusong Services	5,717	16,512
Expanded Public Works	1,931,166	1,904,413
Sports Facilities Maintenance	-	128,086
	13,036,074	**11,065,368**

Notes to the Annual Financial Statements

Figures in Rand	2016	2015

33. General expenses

Advertising	180,688	135,237
Bank charges	63,083	75,952
Children support	22,422	26,650
Commission paid	85,100	-
Consumables	11,851	19,592
Scrapping loss	-	1,017,499
Insurance	159,424	136,939
Conferences and seminars	23,462	-
Legal Fees	101,827	170,438
Motor vehicle licence fees	9,481	9,665
Fuel and oil	402,397	503,628
Printing and stationery	172,234	143,845
Protective clothing	111,453	111,557
Restoration of landfill site	40,579	54,885
Employee Assistant Program	2,017	111,772
Subscriptions and membership fees	511,395	505,247
Telephone and fax	406,823	264,485
Training	536,610	404,176
Subsistence & Travelling	231,385	477,427
Electricity	3,298,820	2,788,352
Library projects	18,100	662
LED Business plans and strategy	40,275	-
Art tourism culture	160,690	255,806
Children support	-	2,096
Elderly support	133,638	63,764
HIV- Health	36,147	57,483
Poverty Alleviation	10,450	68,397
Project management	577,759	525,450
Other expenses	4,255,326	2,260,227
	11,603,436	**10,191,231**

34. Fair value adjustments

Investment property (Fair value model)	330,000	1,355,000

35. Cash generated from operations

Surplus	11,480,154	5,690,237
Adjustments for:		
Depreciation and amortisation	6,517,203	6,057,421
Gain on disposal of assets	(23,098)	-
Fair value adjustments	(330,000)	(1,355,000)
Impairment deficit	3,952,310	1,355,447
Debt impairment	167,721	375,307
Movements in operating lease assets and accruals	82,648	57,716
Movements in provisions	(1,414,077)	2,269,029
Non-cash item	-	11,820,301
Fair value of newly identified land and donations of PPE	-	3,043,847
Changes in working capital:		
Receivables from exchange transactions	366,842	(328,038)
Consumer debtors	(1,847,356)	(2,067,769)
Payables from exchange transactions	(500,229)	(3,139,620)
VAT	(149,568)	349,671
Unspent conditional grants and receipts	(83,069)	(1,712,410)
Movement in long service award	165,072	103,983
	18,384,553	**22,520,122**

Figures in Rand	2016	2015

36. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	1,847,588	3,839,385
• Investment property	-	5,987,161
	1,847,588	**9,826,546**
Total capital commitments		
Already contracted for but not provided for	1,847,588	9,826,546

This committed expenditure relates to plant and equipment and will be financed by available Municipal Infrastructure Grant Allocation gazetted in the 2016/17 DORA Allocation.

The operating commitments includes outstanding operating leases commitments which are financed by the operating revenue through surplus income and equitable share.

Operating leases - as lessee (expense)

Minimum lease payments due		
- within one year	583,212	502,319
- in second to fifth year inclusive	1,584,663	2,167,875
	2,167,875	**2,670,194**

Operating lease payments represent rentals payable by the municipality for certain of its office photocopying machines. Leases are negotiated for an average term of five years and rentals have straightlined for the lease term duration. No contingent rent is payable.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	423,879	427,468
- in second to fifth year inclusive	657,578	1,081,457
	1,081,457	**1,508,925**

Certain of the municipality's facilities is held to generate rental income. Rental of these facilities is expected to generate rental on an ongoing basis. Lease agreements are cancellable with three months written notice by either party and have terms from 1 to 5 years. There are no contingent rents receivable.

37. Related parties

There were no related party transaction for the financial period.

38. Change in estimate

Property, plant and equipment

The Municipality has reassessed the useful lives and the residual values of property, plant & equipment at the begining of the current year which resulted in the infrastructure assets' remaining useful lives to change from 2.40 to 8.23 years on average.

The following information is available regarding the depreciable infrastructure assets:

Carrying amount at the beginning of 2015/16 financial year	-	46,572,648
Depreciation for 2014/15 financial year	-	4,196,885
	-	-

Changing the remaining useful lives of infrastructure assets will affect the current period (i.e. 2015/2016) as well as future periods in the following way:

Depreciation for the 2015/2016 period based on the average of 8.23 years remaining useful life	-	3,920,687
Carrying amount at the end of 2015/2016 financial year	-	32,277,572
Depreciation for future periods	-	3,920,687
	-	-

The effect of the change in estimates on infrastructure assets in the current and future years is the decrease in depreciation charge by R276,198.

39. Prior period errors

The correction of the error(s) results in adjustments as follows:

Adjustment for errors in prior year is as follows:		
Opening Accumulated Surplus	90,212,377	-

Statement of Financial Position	As previously reported	Reclassification	Correction of errors	Restated
Receivables from exchange transactions	865,806	-	(112,714)	753,092
Consumer debtors	3,016,884	-	(142,560)	2,874,324
Investment property	10,400,000	-	600,000	11,000,000
Property, Plant and Equipment	92,012,463	102,983	1,739,344	93,854,790
Operating lease liability	(99,354)	-	(8,314)	(107,668)
Payable from exchange transactions	(1,538,300)	-	11,021	(1,527,279)
Revaluation reserves	(11,290,600)	(102,983)	-	(11,393,583)
Accumulated surplus	(90,212,377)	-	(2,086,777)	(92,299,154)
	-	-	-	-

Statement of Financial Performance	As previously reported	Reclassification	Correction of errors	Restated
Interest received- investments	624,838	-	(2,101)	622,737
Property rates	4,298,153	-	(253,174)	4,044,979
Depreciation and amortisation	(5,990,969)	-	(66,452)	(6,057,421)
Impairment loss/ reversal of impairment	(1,415,699)	(102,983)	163,235	(1,355,447)
Repairs and maintenance	(610,667)	-	19,197	(591,470)
Contracted services	(1,168,682)	-	(8,314)	(1,176,996)
Grant funded expenditure	(11,231,581)	(146,156)	312,369	(11,065,368)
General expenses	(10,337,387)	146,156	-	(10,191,231)
Surplus for the year	5,628,460	(102,983)	164,760	5,690,237
	-	-	-	-

Notes to the Annual Financial Statements

Figures in Rand

39. Prior period errors (continued)

Cash Flow Statement	As previously reported	Reclassification	Correction of errors	Restated
Receipts from customers	4,298,153	-	(253,174)	4,044,979
Suppliers	(34,086,445)	11,924,284	3,617,562	(18,544,599)
Purchase of Property, plant and equipment	(24,194,744)	-	(3,364,389)	(27,559,133)
Non-cash item	11,924,284	(11,924,284)	-	-
Movement in long service awards	103,983	(103,983)	-	-
	-	**-**	**-**	**-**

Figures in Rand	2016	2015
Receivables from exchange transactions		
Reported amount	-	865,806
Correction of error	-	(112,714)
	-	**753,092**

The error relates to raising of department of communications as a rental debtor while there was no existing rental contract between the municipality and the department.

Consumer debtors		
Reported amount	-	3,016,884
Correction of error	-	(142,560)
	-	**2,874,324**

The prior error relates to double billing of Sappi and a billing of a non-existing school in the previous financial year.

The result from the correction of errors is a decrease in consumer debtors.

39. Prior period errors (continued)

Investment property

Reported amount	-	10,400,000
Correction of error	-	600,000
	-	**11,000,000**

The error relates to newly identified investment land which was previously not recorded in the assets register was only recorded in the current year.

Property, Plant and Equipment

Reported amount	-	92,012,463
Correction of error	-	1,739,344
Reclassification	-	102,983
	-	**93,854,790**

The error on property, plant and equipment relates to adjustment made to retention amounts raised in the prior year which affected the opening balances of Mayilitshe hall, Ntokozweni road and Nhlabamkhosi link road. Accumulated depreciation for Ntokozweni road, Nhlabamkhosi link road and Stepmore road was also adjusted. Newly identified land which was erroneously omitted from the assets register was recorded during the reporting period.

Work-in-progress for the Milling plant, Main office guard house and Thusong guard house which was erroneously not capitalised in the prior year was capitalised in the current year.

Opening impairment for plant and machinery was corrected due to calculation errors in the prior year. Revaluation surplus which was erroneously classified as impairment reversal in the prior year for Bustop road was also corrected.

The result from the correction of error is an increase in property, plant and equipment, increase in payable from exchange transactions, decrease in impairment reversal, decrease in impairment and decrease in repairs and maintenance.

Operating lease liability

Reported amount	-	(99,354)
Correction of error	-	(8,314)
	-	**(107,668)**

Operating lease liability was understated, this was due to contracts which relates to Nashua phocopying machines which became available during the year under review. The error was corrected by including those lease contracts in the calculation of liase liability. The result from the correction of error is an increase in the operating lease liability and a decrease in the contracted sevices.

Payable from exhange transactions

Reported amount	-	(1,138,300)
Correction of error	-	11,021
	-	**(1,127,279)**

The error relates to retention amounts which were adjusted for Mayilitshe hall, Ntokozweni road and Nhlabamkhosi link road The result from the correction of error is a decrease in the payable from exchange transactions and an increase in property, plant and equipment.

39. Prior period errors (continued)

Revaluation reserves

Reported amount	-	(11,290,600)
Correction of error	-	(102,983)
	-	**(11,393,583)**

Revaluation surplus previously classified as impairment reversal for Bustop road was corrected. The result of this correction resulted in an increase on Revaluation reserves and decrease on impairment reversal.

Interest received- investments

Reported amount	-	624,838
Correction of error	-	(2,101)
	-	**622,737**

Interest income was restated, this is due to interest which had accrued on government debts which were erroneoulsy billed in the previous year.

The result from the correction of an error is a decrease in interest income and decrease in consumer debtors.

Property rates

Reported amount	-	4,298,153
Correction of error	-	(253,174)
	-	**4,044,979**

Property rates were restated, this is due to government debts which were incorrectly billed. The correction of error resulted in a decrease in property rates and decrease in consumer debtors.

Depreciation and amortisation

Reported amount	-	(5,990,969)
Correction of error	-	(66,452)
	-	**(6,057,421)**

The opening depreciation was adjusted for property, plant and equipment. This was due to the correction of error on Mayilitshe hall, Stepmore road, Ntokozweni road and Nhlabamkhosi link road.

Impairment loss/ reversal of impairment

Reported amount	-	(1,415,699)
Correction of error	-	163,235
Reclassification	-	(102,983)
	-	**(1,355,447)**

Repairs and maintenance

Reported amount	-	(610,667)
Correction of error	-	19,197
	-	**(591,470)**

Adjustments were made on the Repairs and maintenance due to work-in-progress which was not capitalised in the prior year. The correction of the error resulted in the decrease in repairs and maintenance and increase in work-in-progress.

39. Prior period errors (continued)

Contracted services

Reported amount	-	(1,168,682)
Correction of error	-	(8,314)
	-	**(1,176,996)**

Contracted services were restated, this is due to operating lease liability adjustment as a result of contracts which became available during the year under review. The result of the correction of an error is decrease in contracted services and increase in lease liability.

Grant funded expenditure

Reported amount	-	(11,231,581)
Correction of error	-	312,369
Reclassification	-	(146,156)
	-	**(11,065,368)**

Grant funded expenditure was restated, this is due to work-in-progress for Milling grant, Thusong guard house and Main office guard house which was not capitalised in the prior year. Grant funded expenditure which was erroneously classified under general expenses was also corrected.

The result of the correction of error is a decrease in grant funded expenditure and increase in work-in-progress.

General expenses

Reported amount	-	(10,337,387)
Correction of error	-	146,156
	-	**(10,191,231)**

General expenses were restated, this is due to the work-in-progress for Milling plant, Thusong guard house and Main office guard house which was not capitalised in the prior year.

The effect of the correction of error is the decrease in general expenses and increase in work-in-progress.

Receipts from customers

Reported amount	-	4,298,153
Correction of error	-	(253,174)
	-	**4,044,979**

Suppliers

Reported	-	(34,086,445)
Correction of error	-	573,715
Reclassification	-	11,924,284
	-	**(21,588,446)**

Payment to suppliers was restated, this was as a result of reclassification and correction of error on property rates billed for government debtors and work-in-progress previously not capitalised for Milling plant, Main office guardhouse and Thusong guardhouse. The effect of the error is the decrease in suppliers paid and increase in purchases of property, plant and equipment.

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39. Prior period errors (continued)

Purchase of property, plant and equipment

Reported amount	-	(24,194,744)
Correction of error	-	(320,542)
	-	**(24,515,286)**

Purchase of property, plant and equipment was restated, this was due to the correction of error for work-in-progress which was not capitalised in the prior year.

The effect of the error is the increase in the purchase of property, plant and equipment and decrease in the payment of suppliers.

Non-cash item

Reported	-	11,820,300
Reclassification	-	(11,820,300)
	-	**-**

Non-cash item was reclassified to the cashflow reconciliation note (36). There is no effect in the net cash flow from investing activities..

Movement in long service awards

Reported	-	103,983
Reclassification	-	(103,983)
	-	**-**

Movement in long service awards was reclassified to the cashflow reconciliation note 36. There is no effect on the net cash flow from financing activities.

40. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

41. Fruitless and wasteful expenditure

Opening balance	1,148,244	1,137,500
Amount reported to council and written off	(1,148,244)	-
Current year amount	2,019	10,744
	2,019	**1,148,244**

The fruitless and wasteful expenditure for the previous period was reported to council for investigation. Council resolved to write-off the expenditure following investigation outcomes.

The fruitless and wasteful expenditure for the current year relates interest charged by service providers for late payment of invoices.

42. Irregular expenditure

Opening balance	1,642,500	615,858
Add: Irregular Expenditure - current year	44,947	1,026,642
Less: Amounts condoned	(1,642,500)	-
	44,947	**1,642,500**

42. Irregular expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Current year	44,947	1,026,642
Prior years	-	615,858
	44,947	**1,642,500**

Details of irregular expenditure – current year

Irregular expenditure incurred relates to payments made to service providers for the lease of photo copying machine and supply of wireless broadband while the contracts had expired.	The irregular expenditure is still under investigation by council.	44,947
This was in direct contravention with section 116(3) of the Municipal Finance Management Act.		-

Details of irregular expenditure condoned

	Disciplinary steps taken	
Service provider continuing to render telephone services whilst the contract had expired.	Expenditure was reported to council for condonement.	203,883
Contracts entered into by the municipality without following the normal bidding processes for the lease of photocopying machines.	Expenditure was reported to council for condonement.	260,996
		522,017
Contractor paid for stand-off time	Expenditure was reported to council for condonement.	-
Overpayment to members of political structure of the municipality	Expenditure was reported to council for condonement and the total amount was recovered.	39,746
		1,026,642

43. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the and includes a note to the annual financial statements.

In terms of section 36 of the Municipal Supply Chain Management Regulations, any deviation from Supply Chain Management Policy needs to be approved by the Accounting Officer and noted by Council. All expenses incurred have been condoned by Council.

All deviations have been approved by Council and have been report in terms of section 114 of the Municipal Finance Management Act, 56 of 2003.

Summary of deviations:	MFMA Regulations	2016	2015
Transport services	36(1)(a)(ii)	178,327	145,350
Advertisement services	36(1)(a)(v)	269,997	230,048
Repairs of plant	36(1)(a)(ii)	118,082	64,725
Other	36(1)(a)(ii)	139,922	702,598
		706,328	**1,142,721**

44. Contingencies

A contingent liability from the possible outflow of money as a result of a litigation. The municipality had no contingent liability during the reporting period.

45. Budget differences

The excess of actual expenditure over the final budget of 15% over or under approved budget is explained under this note.

Material differences between budget and actual amounts

Rendering of services- This relates to actual commision income from motor licensing in excess of budgeted income which includes planning fees that were not anticipated thus were not budgeted for.

Interest received on investments- Interest accrued on investments which relates to conditional grants was higher than budgeted for due to high rate of return on investments and a further investment of MIG during the latter part of the year.

Rental of facilities and equipment- Contracts not concluded with Social Development and thus not billed as budgeted. Donations received- This relates to donated assets which were received at the latter stage of the financial year.

Other Income- Budgeted income comprises of housing grant own income, interest on outstanding debtors that was budgeted for under investment income.

Property rates penalties- Albeit municipal credit control and debt management policy stipulates a charge for interest against outstanding debt, it is not feasible to charge twelve months interest on outstanding customers as 90% are not paying their accounts.

Government Grants- Budget has not taken into accountcapital expenditure whilst income per GRAP Stanadard includes MIG and other capital related expenditure recognised as revenue.

Administration- A portion of administration expenditure budgeted for included as general expenses.

Depreciation and amortisation- the variance in budget is as a result of huge amounts of Work-in-progress capitalised during the reporting period.

Bad debt written off- The municipality did not anticipate writing off debtors and this line item was not budgeted for.

Impairment loss/ Reversal of impairment loss- this relates to revaluation of infrastructure assets which is done at year-end.

Finance Costs- interest on long service awards was not budgeted for during the reporting period.

Debt impairment- debtors impairment per write-off, accounting policy and Municipal Property Rates Act (Section 17).

Contracted Services- expenditure relating to contract services transferred from telephone expense which resulted in an increase in the contracted services expense.

Grants and Subsidies- expenditure of roll-over grants recognised as revenue.

General expenses- the municipality applied stringent monitoring measure on general expenses to cut down costs.

Fair value adjustments- this relates to appraisal of investment properties owned by the municipality, this item is a non-cash item and as such it was not budgeted for during the reporting period.

Operating lease asset- this relates to lease rental income which was budgeted for under rental of facilities.

Receivables from exchanged transactions- budget included estimated revenue due to the municipality for rental for new contracts entered into during the reporting period.

VAT receivable- a portion of VAT refund is included in the non-exchange receivables budget.

Consumer debtors- new valuation roll commenced and property values increased which resulted in increase in debtors book.

45. Budget differences (continued)

Cash and cash equivalents- budget projections relates to 100% expenditure perceived for the year relating to conditional grants.

Intangible assets- this item was budgeted for under the property,plant and equipment line item.

Operating lease liability- this item was budgeted for under the operating lease expenses.

Payables from exchanged transactions- budget projections included anticipated unspent grant expenditure from previous financial year.

Unspent conditional grants and receipts- item budgeted for under payables from exchange transactions budget.

Long-term loan- a new loan was taken during the reporting period, processes for the approval of the loan were expected to be concluded during 2015/2016 financial year therefore the loan liability was budgeted for in the 2015/2016 financial year.

Interest income- Grants received were expected to finished in the earlier half of the reporting period.

Receipts from customers- relates to receipts for property rates, retes clearance certificates that was collected during the year. Included is also the rental income and hire of facilities.

Grants- The municipality received an additional funding from National Treasury for MIG towards the financial year end.

Interest received- investments- This relates to accrued interest on short-term deposits which relates to unspent conditional grants which was higher due to high rate of return on investment and a further receipt of aditional MIG funding during the latter part of the year.

Other receipts- Comprises of housing grant, own income and interest on outstanding debtors that were budgeted for the year whilst actual income relates to housing income only.

Payment to suppliers- relates to aditional payment made on capital expenditure to contracted/ awarded contractors. Includes portion of FBE to be classified under transfers and grants.

46. New standards and interpretations

46.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

46.2 GRAP 18: Segment Reporting

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2016 or later periods:

46.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2016 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 18: Segment Reporting		

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

GRAP 32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

GRAP 108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

GRAP 16 (as amended 2015): Investment Property

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Various amendments were made to the Standard, affecting Definitions, Identification, Disclosure, Effective date and Transitional provisions.

The effective date of the standard is for years beginning on or after April 1, 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

GRAP 17 (as amended 2015): Property, Plant and Equipment

Based on the feedback received as part of the post-implementation review, the Board agreed to reconsider certain principles in GRAP 16 and GRAP 17. In particular, the Board agreed to:

- Review the principles and explanations related to the distinction between investment property and property, plant and equipment.
- Consider whether an indicator-based assessment of useful lives of assets could be introduced.
- Clarify the wording related to the use of external valuers.
- Introduce more specific presentation and disclosure requirements for capital work-in-progress.
- Review the encouraged disclosures and assess whether any should be made mandatory or deleted.
- Require separate presentation of expenditure incurred on repairs and maintenance in the financial statements.

Amendments identified as part of the post-implementation review, affected the following areas:

- Indicator-based assessment of the useful lives of assets
- Use of external valuers
- Encouraged disclosures

Notes to the Annual Financial Statements

46. New standards and interpretations (continued)

- Capital work-in-progress
- Expenditure incurred on repairs and maintenance

The effective date of the standard is for years beginning on or after April 1, 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

47. Unauthorised expenditure

Commission paid	59,700	-

The municipality has made payment to a service provider for an amount of R59,700 in respect of traffic fines collected. This amount was not initially included in the municipality's annual budget which resulted in an unauthorised expenditure.

The unauthorised expenditure is being investigated by the Accounting Officer.